

A nonprofit organization that has as its principal activity the operation of a telephone-answering service for member doctors is not exempt under section 501(c)(6) of the Code.

The Internal Revenue Service has been asked whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

The organization is composed of members of the medical profession and persons in the field of public health and was formed to promote the profession of medicine and to improve the health of the community that it serves.

The organization maintains a medical library, distributes a monthly bulletin publicizing new developments in the field of medicine, and operates a telephone-answering service for member doctors. The operation of the telephone-answering service is the organization's principal activity. Members are charged a fee based upon their use of the service. The answering service provides the organization with the major portion of its total income and is an important instrument in the conduct of a member's medical practice. The balance of the organization's income is from membership dues. Expenditures are for operating expenses.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having a common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is providing only sufficient income to be self sustaining, is a business league.

Revenue Ruling 68-264, C.B. 1968-1, 264, and Revenue Ruling 68-265, C.B. 1968-1, 265, hold that an activity that serves as a convenience or economy to members in the operation of their business is a particular service of the type proscribed.

By providing a telephone-answering service the organization relieves the individual members of the necessity of securing this service commercially, resulting in a convenience or economy in the conduct of the medical practice of its individual members. Therefore, the organization is rendering particular services for

individual persons as distinguished from the improvement of business conditions in the medical profession and public health area generally. Further, by operating the telephone-answering service, the organization is engaged in a regular business of a kind ordinarily carried on for profit. See Revenue Ruling 66-338, C.B. 1966-2, 226, which holds that an organization that advises its members in the operation of their individual businesses and sells supplies and equipment to them is not exempt from Federal income tax under section 501(c)(6) of the Code.

Accordingly, it is held that the organization does not qualify for exemption from Federal income tax under section 501(c)(6) of the Code.